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## Canada

### Agricultural Situation

## This Week in Canadian Agriculture, Issue 44 2003

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**Report Highlights:**

Vanclief Urges Trading Partners To Reopen Markets To Canadian Beef \* Vanclief To Lead Trade Mission To India \* CWB Chair Willing To Meet U.S. Producers \* Wheat Rejected By Ukraine Not From The Prairies  
\* GM Grains Hinder Exports, Says Canadian Seed Trade Association \* Softwood Lumber Talks Gain Ground  
\* Firms Fear Softwood Deal Will Revive Quotas \* Canada May Share Softwood Cash \* Coalition Aims To Save Canadian Boreal Forest \* Dairy Tariff Cuts Would Jeopardize Supply Management Says DFO  
\* Supreme Court Of Canada Asked To Hear Margarine Color Case

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Includes PSD Changes: No  
Includes Trade Matrix: No  
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This Week in Canadian Agriculture is a weekly review of Canadian agricultural industry developments of interest to the U.S. agricultural community. The issues summarized in this report cover a wide range of subject matter obtained from Canadian press reports, government press releases, and host country agricultural officials and representatives.

*Disclaimer:* Any press report summaries in this report are included to bring U.S. readership closer to the pulse of Canadian developments in agriculture. In no way do the views and opinions of these sources reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

**VANCLIEF URGES TRADING PARTNERS TO REOPEN MARKETS TO CANADIAN BEEF:** While attending the FAO meeting in Rome, Agricultural Minister Lyle Vanclief held bilateral meetings to press global agricultural leaders to reopen their markets to Canadian beef products. In a press release, Vanclief said he updated several ministers on the status of Bovine Spongiform Encephalopathy (BSE) in Canada and urged ministers to support a trilateral initiative by Canada, the U.S. and Mexico to establish a science-based trade response to any and all future BSE issues wherever they occur. "A more practical, science-based assessment would substantially reduce the economic pain felt by a country if and when BSE is discovered," said Mr. Vanclief. "A new system would assure countries reporting BSE cases that they would be treated fairly. This would ensure that cases are reported and that nations would continue to work toward prevention and eradication measures." He reportedly talked about the BSE issue during his meeting with Japanese Agriculture, Forestry and Fisheries Minister Yoshiyuki Kamei. "Minister Kamei and I talked at great length about the U.S. rule for live cattle," said Mr. Vanclief. "We also asked Japan to consider becoming part of our group petitioning the OIE for the development of new international standards for the handling of BSE."

**VANCLIEF TO LEAD TRADE MISSION TO INDIA:** Mr. Vanclief will travel to India later this month for six days of meetings with agriculture and agri-food sector stakeholders and government representatives. "This mission will serve to initiate a bilateral relationship on agriculture and agri-food issues and to encourage high-level discussions on a number of market access issues that currently limit Canadian exports to India," said Mr. Vanclief. The mission to India is the first ever by a Canadian minister of agriculture and will provide an opportunity to further explore the potential of the Indian market. AAFC has identified India as an important emerging market for Canadian agriculture and agri-food products, with significant potential for Canada in areas such as livestock genetics, pork, canola oil and alcoholic beverages. In recent years, India has become one of the top markets for the Canadian pulse industry. *Comment:* Pulses, at \$78 million, accounted for almost all of Canada's \$83 million in total agricultural exports to India last year. Canada imported \$65 million in food products from India during 2002, mostly tea, rice, spices and cashews.

**CWB CHAIR WILLING TO MEET U.S. PRODUCERS:** According to a December 12 article from *FarmAssist.ca*, the chairman of the Canadian Wheat Board (CWB) says he is willing to sit down with producers south of the border for a "farmer-to-farmer" discussion of their differences. In view of the numerous trade disagreements that have cropped up between Canadian and American producers over the past decade or so – including the ongoing battle over U.S. tariffs on Canadian Red Spring wheat – Ken Ritter said it was time for a meeting of the minds. "Our observation was that instead of speaking to each other through expensive lawyers, it would probably make sense to just sit down with the American farmers and farm groups in the regions that claim to be affected by Canadian grain exports, and at least come at the issues from a common set of facts." Ritter said he believes there are some major misconceptions south of the border about how the CWB operates, including a belief among U.S. producers that it simply administers government subsidies and targets American markets. To be fair, Canadian farmers probably have some misconceptions about their U.S.

counterparts as well, he admitted. However, Ritter said he was no optimistic the current tariff dispute, which involves the CWB and the North Dakota Wheat Commission, could be settled outside of the formal appeal process. "Once cases like this are in the mill like this, it's hard to detour them," Ritter said. "I guess I'm not holding out a whole bunch of hope. . . but what we are doing is looking to the future, to a mutual understanding."

**WHEAT REJECTED BY UKRAINE NOT FROM THE PRAIRIES:** According to a story from the November 25 *Western Producer*, it probably wasn't prairie wheat that the Ukrainian state grain agency recently rejected. "Our sources are telling us that it was not wheat from Western Canada," said Canadian Wheat Board (CWB) spokesperson Rheel Cenerini. Reuters News Agency recently reported that a shipment of Canadian wheat was rejected by Ukraine because of quality problems. Ontario Wheat Producers Marketing Board general manager Larry Shapton said rumors are that the wheat came from Ontario, but he doesn't believe it was Ontario wheat board product. The Ontario wheat board no longer has a marketing monopoly, so the wheat could have been sold and shipped outside the board system by a private company. Ontario wheat board export wheat is now sold through a grain broker who takes possession of the wheat at Great Lakes terminals, so even if it was wheat sold through the Ontario board, information about the problem might take some time to arise. Cenerini said the CWB has been selling wheat to Ukraine through an accredited exporter who says there have been no problems with prairie grain. "Any wheat that was moved into that market from Western Canada was well received by the Ukrainian authorities," said Cenerini.

**GM GRAINS HINDER EXPORTS, SAYS CANADIAN SEED TRADE ASSOCIATION:** The November 30 Lloydminster *Meridian Booster* writes that grain and oilseed exporters across Canada were cited as saying they are facing a wall of trade barriers worldwide because governments - including Canada's - are not moving fast enough to regulate against the presence of trace amounts of genetically modified organisms in food. Bill Leask, executive vice-president of the Canadian Seed Trade Association (CSTA), was cited as saying that the problem is that consumers believe their food is not genetically modified, but that without restrictions for separating and labeling GM and non-GM foods, it is impossible to know, adding, "For human ingestion of oil and meal, before the products can be shipped to other countries, they have to be approved. There is an extensive amount of testing that needs to be done, and the problem is that exported grain and oilseed that has not been approved is not being shipped to other markets." The story explains that the countries without protocol in place have zero tolerance for trace amounts of unapproved substances. Many trading partners that signed the Cartagena Protocol on Biosafety at the Convention on Biological Diversity have yet to ratify it. For countries like Canada - whose acreage is between 60-70% genetically modified, it means markets that could be available aren't - for example, the European Union, with its moratorium on importing foreign GM grains and oilseeds.

**SOFTWOOD LUMBER TALKS GAIN GROUND:** The December 2 *Globe and Mail* reported that Canadian and U.S. negotiators made progress in carving out the shape of a possible deal to end the cross-border softwood lumber war, but the fate of US\$1.7-billion in duties collected remains a major stumbling block to a settlement. In addition, Canada is still seeking an exemption for two groups that have long argued they don't benefit from the alleged subsidies Washington believes the provinces give to timber mills: Maritime softwood producers, who sell trees from private land, and remanufacturers, who operate at arm's length from millers and buy wood for further processing. Washington and Ottawa Monday agreed that Canadian softwood shipments would be allowed to enter the U.S. duty free until they comprise a 31.5% share of the U.S. lumber market, a Canadian industry source said. Above that market share, Canadian softwood producers would pay a levy of \$200 per 1,000 board feet. This deal would last five years, but the provinces would be allowed to apply for relief if they overhaul forestry rules to make timber pricing and other policies more market oriented. Canadian and U.S. negotiators still had not settled on a mutually agreeable

proposal for dividing the duties Washington has already collected. Ottawa has been asking for 75% of the duties to be returned to Canada and 25% to remain with the U.S. The Coalition for Fair Lumber Imports has been pushing for a 50-50 split. "A 50% deposition [of monies paid so far to the U.S. government] is a non-starter for the companies that I represent," said Marc Boutin, a director of international trade with the Quebec Forest Industry Council.

According to the terms of the deal being discussed, two years after it's signed, those provinces that have reformed their forestry regimes to the satisfaction of the U.S. Commerce Department would get a 7% increase in their share of Canada's quota in the U.S. softwood market. After three years, British Columbia, Quebec and one other province could graduate to free trade in softwood lumber as a group, if all had reformed their regimes to suit Washington. If a deal is struck in Washington talks, each government still must approve it after consultations with their respective industries.

**FIRMS FEAR SOFTWOOD DEAL WILL REVIVE QUOTAS:** The December 2 *Vancouver Sun* reports that lumber talks now underway in Washington are running into opposition from some Canadian companies who fear a return to a cap on lumber exports similar to the previous softwood lumber agreement. "We didn't fare well the last time there was a quota system, and the fact that they are talking in Washington leaves us really concerned," said Russ Cameron, of the Independent Lumber Remanufacturers Association. Canadian lumber was subject to quotas during the 1996-2001 agreement. When that agreement expired, Canada said it did not want to see a return to quotas. However, two years of 27% duties have softened much of the opposition to an agreement that caps lumber exports. Anticipation of a quota deal was part of the motivation behind the Canfor Corp. bid for rival Slocan Forest Products. Cameron said winners under a quota system would likely be major forest companies who were able to continue selling lumber into the U.S. over the past two years by cranking up production to lower their unit costs. The losers, Cameron fears, will be independent lumber remanufacturers, who have higher costs and had to pay more money in duty to the U.S. As a result, remanufacturers have cut back production severely since 2001. The B.C. Lumber Trade Council, the country's largest lumber lobbying organization, had no comment. B.C. Forests Minister Mike de Jong also had no comment. Carl Grenier, of the Free Trade Lumber Council, which represents smaller, independent manufacturers in B.C., said a quota-based deal will not settle the lumber issue, only trap Canadian companies in a quota system that may offer them an ill-defined way out.

**CANADA MAY SHARE SOFTWOOD CASH:** The December 4 *Globe and Mail* reported that the Canadian and U.S. governments are considering splitting nearly evenly the US\$1.7-billion in softwood duties already collected by Washington, with Ottawa getting 52% back and the U.S. keeping 48% of the cash, a forest industry source said yesterday. The article states that allowing the U.S. to keep half the duties it has collected would be an unprecedented move on Canada's part. In other settlements reached during the past 20 years in the protracted dispute, Washington has usually returned most of the duties it has collected.

**COALITION AIMS TO SAVE CANADIAN BOREAL FOREST:** Canada's legendary boreal forest, the largest intact forest left on the planet, will come a giant step closer to being protected when an influential coalition of industry, native communities and environmental groups unveils a startling commitment to conserve the whole thing — amounting to more than half the total area of Canada, according to the December 1 *Globe and Mail*. At roughly 600 million hectares, it is the largest conservation agreement yet made in the world, said Monte Hummel, president of World Wildlife Fund Canada, one of the deal's principal brokers. The boreal, or northern, forest is an evergreen mantle running in a thick band from East Coast of Canada to the West Coast, and made up of pine, spruce, aspen, poplar and larch trees, making up 53% of Canada. At least half the forest would be exempt from industrial

development of any kind — the other half would be open to development only if tightly controlled to be gentle on the environment. Although the agreement, the Boreal Forest Conservation Framework, lacks the force of law, it stands to change the fate of the boreal forest because leading industries that would be likely to push for development of the forest are committed to this deal. However, several of the largest companies working in the boreal forest are not represented on the coalition. For example, Weyerhaeuser Corp., the largest lumber producer in the world, with major operations in Canada, was not involved. The 11 groups that endorse the framework are, Alberta-Pacific Forest Industries, the Canadian Parks and Wilderness Society, the Deh Cho First Nations, Domtar Inc., Ducks Unlimited Canada, Forest Ethics, the Innu Nation, Poplar River First Nation, Suncor Energy Inc, Tembec Inc. and the World Wildlife Fund Canada.

**DAIRY TARIFF CUTS WOULD JEOPARDIZE SUPPLY MANAGEMENT SAYS DFO:** In a CBC editorial picked up by the December 2 edition of *Good Morning Ontario*, ag journalist Jim Romahn asks if Canada's dairy producers are risking future bankruptcy by currently overpaying for milk quota. Romahn observes that the price on the Ontario quota exchange has gone from a recent low of about C\$25,000 to a current price of C\$28,000 per kilogram. To date, dairy producers have been able to profit from selling their milk quota, but Romahn says that's almost certain to change because milk prices could come down, squeezing profit margins and the ability to pay for more quota. Romahn hypothesizes that dairy prices would come down due as a result of pressures in world trade negotiations to reduce the size duties applied to tariff rate quotas. WTO Agriculture Committee Chairman Stuart Harbinson, during the last round of agriculture negotiations, proposed that all agricultural tariffs be reduced, with a cap of no more than 95%. Romahn notes that Canadian cheese tariffs are currently 245%. The article reports that the milk marketing board in Ontario, Dairy Farmers of Ontario, says that because the value of the Canadian dollar has risen, and because there's so much cheap cheese available on the world market, any tariff reduction of more than 15% will become a threat to supply management.

**SUPREME COURT OF CANADA ASKED TO HEAR MARGARINE COLOR CASE:** The December 2 edition of the *Globe and Mail* reported that Unilever Canada Ltd. has asked the Supreme Court of Canada to hear its arguments that Quebec's margarine color law is "invalid and should be repealed." Margarine sold in Quebec must be white, a rule that helps to protect the province's dairy industry. In 1999, the Quebec Superior Court dismissed the Quebec government's argument that the regulation was necessary to protect against consumer confusion, but didn't declare the color rule invalid. In October of this year, the Quebec Court of Appeal upheld the decision.

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